

The Value of Accounting Disclosure: Investors' Perceptions

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ABSTRACT. This paper examines the information content and value of corporate financial accounting disclosures to financial analysts and investors generally in Kuwait. The focus is on four major releases of information, the preliminary announcement, annual report, annual general meeting and the interim report. Daily share price data for a sample of firms is used and the issue of thin trading is explored. Particular attention is paid to the incremental information content of the annual report, an issue that has received inadequate research focus to-date in Kuwait.

The issue of thin trading is explored in detail and the Scholes and Williams method is used to reduce bias in systematic risk (beta). The relationship between size of firm and announcement information content is also discussed. Moreover, Using OLS tests, the average beta was 81 whereas when estimating the risk measure using an estimating method designed to avoid thin trading bias, the average beta rose to 1.03. Despite the company sample being drawn from actively traded companies, results clearly demonstrate the need for such approaches to reduce bias and the inadequacy of restricting samples to larger companies in an attempt to overcome this bias.

The results of this study, *inter alia*, suggest that the annual report in general contains little apparent information of value to investors for decision-making purposes, although such results may still be consistent with price sensitive information being disclosed in individual firm cases. An inverse relationship between company size and announcement information content is also reported.

1. Introduction

The study of Ball and Brown (1968) established that earnings announcements have information content highly prized by investors to determine security prices. Since then researchers have shown preliminary announcements, interim and quarterly earnings reports all to convey information about the underlying value of a security (Beaver 1968, Kiger 1972, Morse 1981, Firth 1981, Judith 1986, Lee 1994, Maddala 1991, and Tse 1986). However, the evidence relating to the usefulness of the annual report and accounts to investors, measured in terms of its impact on share prices is sparse in Kuwait, thus further investigation is required.

To-date, there has been limited research on the value of (Firth, 1981, Foster et al 1986, Feltham et al 1997, Gaa 1996) useful information in the annual report for share valuation purposes however, herein lies an anomaly: why is the report read so avidly by investors? The results of shareholder and professional analyst surveys are uniformly consistent in their findings, (e.g. Chang and Most, 1980, Lee and Tweedie, 1981, Biddle & William 1988, Brien 1990). They all reveal the perceived importance to the users of the Chairman's Statement, the Profit and Loss Account and the Balance Sheet for decision-making (see Andrew & Boatsman 1995, Atiase 1985, Baruch & Pernman 1990).

The annual general meeting, which follows the publication of the accounts, gives the shareholders probably their only opportunity for a face-to-face confrontation with the directors of the company. However, only Firth (1981) appears to have addressed similar issues with regard to this event and found little aggregate market reaction.

The amount of information about a company available to market is directly related to its size both in terms of the extent of information disclosures by the company itself and the degree to which it is followed by information intermediaries such as stock broking analysts. As such most empirical studies agree on an inverse relationship between firm size and share price reaction to formal financial disclosures (Zeghal, 1984, Freeman, 1987, **Brown 1980**, Chenhall & Juchau 1977, Feltham et al 1997).

This paper seeks to provide evidence on the incremental information content of four events, preliminary announcement (PA), annual report and accounts (ARA), annual general meeting (AGM) and interim report (IR). Particular attention is paid to the relative value to investors of the annual report and accounts in aggregate. Unlike earlier research daily share price data is used and statistically analyzed.

The next section describes the accounting disclosure and regulation in Kuwait, as well as the data set and methodology. Section 3 provides the statistical results using daily data, while section 4 provides comparative results using weekly data. The paper is concluded with a summary and conclusions section with an indication of future work.

2. Accounting Disclosure in Kuwait

Kuwait has known accounting since 1940 as a consequence of the economic expansion in the area. Accounting began as a bookkeeping and recording liability, and it was simulated from neighboring and other Arab countries.

The need for accounting as a financial reporting function has become more acute in recent years, particularly since the AL-Manakh market collapse in summer 1982, which prompted private investors to turn to accounting to provide informative, reliable, and timely financial reports to avoid another crisis. However, accounting firms remain largely responsible for the auditing standards and the quality of their work (Deloitte Haskins and Sells, 1984).

The Regulation of Accounting Profession

Article 12 of Decree No. 5/1981 with respect to the practice of the accounting profession states that "Registered public accountants are to adhere to accounting standards issued by the Permanent Tasks Committee (PTC) formed by the Minister of Commerce". The PTC was formed of 5 members and termed for three renewable years

(Article 2). The purpose of this committee was to improve accounting practice locally as well as to set the minimum disclosure requirements. Indeed, this development was first and foremost a significant indication of the government's desire to improve the accounting system (Malallah, 1984: 90).

The Present Status of Accounting Disclosure

A total of 61-registered accountants are practicing public auditing either under a local established accounting firm, and or through an international affiliation. Finally, a practicing accountant has to be a member of the Kuwait Association of Accountants and Auditors, which was established in 1974 and has about 570 registered members.

The Kuwaiti accounting profession at present is without a uniform body of generally accepted auditing standards and a statement of generally accepted accounting principles. In addition, no code of professional ethics has been developed. Ministry of Commerce has issued a resolution enforcing international accounting standards as of March 1992. Since then financial reporting has been improved toward full disclosure, let alone that changes in the economic structure of Kuwait has called for stringent reporting standards. This enforcement has influenced the development of accounting and increased the volume of professional accounting.

A registered accountant as required under the Commercial companies' law and the Kuwait Stock Exchange conducts audits. So far there is no defined set of generally accepted auditing standards. The absence of defined audit standards has made it more difficult for the auditor to prove that he has done what a prudent and diligent auditor would do under the given circumstances in accordance with recognized auditing standards.

3. Data and Methodology

3.1 Sample and Share Price Data

The sample consists of 37 companies, which met the following selection criteria :

1. firms had to be listed on Kuwait Stock Exchange as at 30.3.2001, and have daily share price data available for 125 trading days prior to the five-day trading period commencing with the preliminary announcement (PA) and 130 trading days thereafter. Daily return was generously provided by Arab Financial Advisory Corporation to whom the author is considerably indebted, and covered the period from 1 February, 2000 to 30 March 2001, both days included. For all but 2 cases the PA event for each company occurred during calendar year 2000.

2. In view of the problems that might arise with the use of daily data (Scholes and Williams, 1977, Dimson, 1979, Dimson and Marsh,1983 but see Brown and Warner, 1980 and Morse,1984) companies selected were Stocks Guide to those with a marketability rating of one or two according to the Global Inc. Risk Management for 2000. The rating shows how many days are likely to have elapsed since the previous market transaction: one = under 0.1 day, two=0.1 – 1 day, over 43 companies met both the first and this additional criterion.

3. A further requirement was that there had to be at least five trading days between each event, the event day being the first of the five trading days period. No company was permitted more than one event on each of the four main event days.

Meeting these criteria reduced the sample size to its final 37 firms. The 260-days trading period is centered on the PA. Where the 260 trading days included more than interim report (IR) the second was omitted and another 5 trading days of data added.

3.2 Methodology

3.2.1 Abnormal return metric

This study examines four firm financial report related events for their information content. If the event contains new information the share price reaction should yield an abnormal return or residual, the sign being ignored, higher than the average for the non-event days. The abnormal return is a measure of firm specific information. If the PA, ARA, AGM, or IR contains new information useful to investors for share evaluation purposes, a significant impact on the share price generating a large abnormal return should result.

The abnormal return metric (U_{jt}) employed in this study is defined as:

$$U_{jt} = Ar_{jt} - Er_{jt} \quad (1)$$

Where U_{jt} = the abnormal return (residual) of firm j on day t

Ar_{jt} = the actual return of firm j on day t

Er_{jt} = the expected return of firm j on day t

3.2.2. Calculation of abnormal returns

Brown and Warner (1985), adopting a simulation approach, tested different event study methodologies using daily data. Their results were consistent with those of their (1980) monthly data study in that methodologies based on the ordinary least squares (OLS) market model and, in some special cases, even more simple methods were as powerful at detecting abnormal returns as more elaborate procedures.

To test the sensitivity of results to the nature of the return generating process three models are employed, a simple basic model, the market model and the capital asset pricing model (CAPM).

3.2.3 Model 1 The Basic Model

The basic or simple model relates the performance of the sample companies to the market index. It sets coefficients $a = 0$ and $b = 1$, for the market model. Firth (1975); Bird (1998); Christie (1997) and other studies have found the 'a's to be virtually zero for all shares. There is the additional advantages in this formulation that potentially biased estimates of betas, calculated from returns related to thinly traded shares, are not used. The model is thus:

$$Er_{jt} = R_{mt} \quad (2)$$

Where: R_{mt} = the market return

3.2.3 Model (2): The Market Model

This is the form of return – generating function used by Fama (1999):

$$Er_{jt} = a_j + b_j R_{mt} \quad (3)$$

Where: a_j and b_j are the estimated parameters.

3.2.3 Model (3): The simple CAPM (Capital Asset Pricing Model)

$$Er_{jt} = (1 - b_j) R_{ft} + b_j R_{mt} \quad (4)$$

Where : R_{ft} = Risk Free Rate

3.2.3 Variable Derivation

For each of the sample securities daily rates of return were calculated as :

$$Ar_{jt} = \ln(P_{jt} + D_{jt}) - \ln(P_{jt-1}) \quad (5)$$

The actual continuously compounded return on security j in time t where P_{jt} = the closing price for security j on day t, and D_{jt} = net dividend on day t.

Where Ar_{jt} = the actual return of firm on day 't'
 \ln =
 P_{jt} = Closing Price
 D_{jt} = Net Dividend

$$R_{mt} = \ln(SE_t * 1 + G_{yt} / 260) - \ln(SE_{t-1}) \quad (6)$$

Where SE_t = The Stock Exchange – All share price index (a market – value weighted arithmetic index representing 32 of the largest Kuwaiti companies) on day t and G_{yt} = The SE- All share index – Gross Dividend Yield converted to a daily yield basis for day t:

$$\text{And } R_{ft} = \ln(1 + (TB_t/260)) \quad (7)$$

Where TB_t = 3 month Treasury Bill rate converted to a daily yield basis for day t.

3.2.3 Parameter estimation

Model parameters a and b were estimated for firm j by regressing daily returns on the related market returns using conventional OLS regression. The coefficients were estimated for a pooled period of 200 daily returns, 100 on either side of the PA 5 day trading period as well as for the pre and post periods relative to the PA using 100 day periods. The associated 5 day trading periods were removed and additional 5 returns added in each case. Table 1 summarizes the regression results, based on model number 2, using OLS, for the pre and post PA event periods as well as for the pooled period.

Table (1)
Averages of the Estimated parameters in the pre, pooled, and post time periods using ordinary least squares. (37 companies).

Estimation period	a	b	R ²
Pre	-0.000228	0.813	0.211
pooled	-0.000289	0.806	0.169
post	-0.000303	0.810	0.144

Dimson and Marsh (1986) among others indicate a size effect in addition to beta when calculating abnormal returns. To correct for this, the pooled period data was re-calculated using OLS including a size (log) variable. The results are shown in Table (2), where 'c' is the coefficient of log (size).

Table (2)
Averages of the Estimated parameters in the pooled time periods using OLS including a size (log) variable. (37 companies).

Estimation period	a	b	c
pooled	-0.000248	0.798	-0.000006
standard Dev.	0.0025	0.320	0.0006
student t value	0.014345	0.838	0.0004

The firm size effect has virtually no effect on the magnitude of the average estimated parameters. Neither the constant term 'a' (as found in other studies) nor the coefficient 'c' are statistically significant.

3.2.3 Adjustment for Small Firm Bias

The study sample comprises actively traded companies but many are still small and in addition we may posit a potential for bias, despite using actively traded shares due to firm closing prices occurring at different trading times (see Dimson and Marsh,1983) . To test for bias due to non-synchronous data the parameters were re-estimated using the Scholes-Williams method, which takes into account thin trading. The estimators are

$$B = bt-1 + bt + bc + t 1/(1+2\rho)m$$

Where: $bt-1$, bt and $bc +1$ are the parameters derived from regressions of observed returns on preceding, synchronous and subsequent market returns and ρ is the autocorrelation coefficient for the market index.

$$\left(\begin{array}{c} A = 1 \\ \frac{T - 1}{T - 2} \\ \frac{A F_{jt} - b}{T = 2} \\ \frac{1}{T - 2} \\ \frac{R}{T = 2} \\ \frac{mt}{T = 2} \end{array} \right)$$

The parameters were estimated using the 37 companies and the results are shown in Table (3).

Table (3)
Averages of the Estimated parameters and their standard Deviations (in parenthesis) using the Scholes and Williams method with OLS (37 companies).

Estimation period	a	b
Pre	-0.000521 (0.00182)	0.0321 (0.437)
Pooled	0.001191 (0.00110)	0.0276 (0.356)
Post	-0.000591 (0.00216)	0.0410 (0.504)

The need to adjust parameter estimates to take account of thin trading even in a relatively active stock market such as Kuwait Stock Exchange and with a sample of predominately large actively traded stocks in highlighted (see Dimson,1979 and Dimson and Marsh,1983; for detailed discussions on the Scholes and Williams method and thin trading bias).

3.2.3 Stability of Beta Estimates

The average pre and post betas using the Scholes and Williams method were 1.032 and 1.041 respectively. The pre betas were regressed on the post betas and the degree of association was low with an r2 of 0.061, which is statistically significant at the 1% level. Nonetheless, this should not deter us from using the pooled betas as the difference in pre and post average betas is negligible (see Brown,1978 and Altman and Brenner,1981).

4. Results

4.1 Test 1: Information Content of Event Disclosures – Analysis of Mean Cross-Sectional Return Data

The first test of the information content of the PA, ARA, AGM and Ir involved calculating the cross-sectional average abnormal return for each of the 260 days and ranking these by size. Event information releases on a particular day, however, may, in some cases affect the prices, so that any associated price reaction will be reflected in the closing price for the following day. The day following the event day is therefore treated as an event day itself i.e. PA+1, ARA+1, etc. Each of the 37 companies contributed one daily abnormal return or residual Ujt for each of the 252 non-event days and one each for each of the 8 event days. There were always 125 non-event days preceding the PA day. The daily cross-sectional average for day t is defined as:

$$A U_{J t} = \frac{\sum_{j=1}^{337} U_{j t}}{337}$$

The results are set out in Table (4) .

Table (4)
Rankings of absolute average daily abnormal returns (AR)

Rank	Model		Model		Model	
	Day (1)	AR	Day (2)	AR	Day (3)	AR
1	PA	0.0405	PA	0.0407	PA	0.0407
2	IR	0.0397	IR	0.0399	IR	0.0400
3	IR+I	0.0236	IR+I	0.0236	IR+I	0.0236
4	PA+I	0.0234	PA+I	0.0234	PA+I	0.0234
5	AGM+1	0.0182	AGM+I	0.0180	AGM+I	0.0181
6	AGM	0.0175	AGM	0.0175	AGM	0.0175
7	24	0.0171	24	0.0169	24	0.0170
8	187	0.0160	187	0.0160	187	0.0159
9	ARA	0.0159	ARA	0.0159	ARA	0.0159
.						
32			ARA+I	.0136	ARA+I	.0136
.						
38	ARA+I	0.0136				

The almost identical results for the three models in the test will be noted. This is probably because when using daily data the magnitude of beta is largely irrelevant especially in small market movements. (Because of this all further results are reported for the market model (model two only). However, such similar results are unlikely with weekly or monthly data. Table (4) shows that the PA had the highest abnormal return averaged across all firms at 4.1 percent with the IR average abnormal return almost identical at 4.0 percent. The IR+1 and Pa+1 event days had average abnormal returns of 2.4 percent and 2.3 percent. There is only a small price reaction to the AGM and an even smaller one to the ARA with the annual report and accounts way down the Table in 9th position (and ARA+1 variously in position 32 and 38 depending on the model).

One may postulate that these average returns reflect some spill-over of information effect into the following day from the event day, or alternatively that the high average values reflect the arrival of information to the market, as some firms practice, on event day+1, i.e. after the market closes for the day. To investigate this, absolute average abnormal returns for the two-day period (event day t _event day t+1) are derived. Table (5) provides the results for the market model.

Table (5)
Absolute average abnormal returns for the two-day period
(event day t and event day t + event day t+ 1)

	Event day	
	T	t+ (t+ 1)
PA	0.0407	0.0460
ARA	0.0159	0.0238
AGM	0.0175	0.0258
IR	0.0399	0.0468

All events provide increased absolute residuals providing some support for these arguments. It would appear, prima facie, little information in aggregate is conveyed to the market by the AGM and ARA information releases, an issue of fundamental concern to accounting policy makers.

4.1 Market behavior around event days

Analysis, using the market model, was conducted to explore in more detail share price reaction around event days. Tables 6 to 9 provide average absolute abnormal return information for the four event periods studied.

Table (6)
Preliminary announcement
Analysis of abnormal returns in the twenty-three day period
surrounding the announcement (N = 37 Companies)

Day	Average absolute abnormal returns (%)	standard deviation
-19	1.183	1.583
-18	1.190	1.460
-17	1.080	1.381
-16	1.077	1.070
-15	1.221	1.464

-14	1.130	1.278
-13	1.214	1.466
-12	1.183	1.451
-11	1.247	1.275
-10	1.300	1.484
-9	1.192	1.396
-8	1.172	1.558
-7	1.200	1.321
-6	1.209	1.282
-5	1.195	1.258
-4	1.226	1.399
-3	1.458	1.175
-2	1.435	1.762
-1	1.378	1.976
0	4.078	4.607
1	2.317	2.175
2	1.495	1.792
3	1.424	1.585
4	1.529	2.069

Table (7)
Annual report and Accounts
Analysis of abnormal returns in the nine-days period
surrounding publication (N = 37 Companies)

Day	Average absolute abnormal returns (%)	standard deviation
-4	1.441	1.587
-3	1.438	1.754
-2	1.461	1.632
-1	1.325	1.466
0	1.591	2.188
1	1.473	1.763
2	1.550	2.311
3	1.500	1.960
4	1.489	1.960
5	1.336	1.546

Table (8)
Annual General Meeting
Analysis of abnormal returns in the fourteen-day period
surrounding publication (N = 37)

Day	Average absolute abnormal returns (%)	standard deviation
-9	1.441	2.170
-8	1.348	1.515
-7	1.337	2.456
-6	1.306	1.673
-5	1.276	2.456
-4	1.369	1.859
-3	1.304	1.383
-2	1.263	1.652
-1	1.320	1.593

0	1.763	2.303
1	1.801	2.435
2	1.429	1.924
3	1.299	1.463
4	1.329	1.509
5	1.170	1.267

Table (9)
Interim Report
Analysis of abnormal returns in the Fourteen-days
period surrounding publication (N = 37 Companies)

Day	Average absolute abnormal returns (%)	standard deviation
-9	1.304	1.650
-8	1.246	1.782
-7	1.288	1.384
-6	1.219	1.461
-5	1.179	1.304
-4	1.115	1.255
-3	1.435	1.452
-2	1.485	1.905
-1	1.391	1.673
0	4.072	4.907
1	2.072	3.181
2	1.579	1.994
3	1.595	1.980
4	1.303	1.382
5	1.455	2.164

Examination shows no apparent unusual activity preceding or following the event day (day 0) in any case. The absolute average abnormal return for the PA day rises to 4.1% from 1.4% dropping to 2.4% the day after. In both cases, thereafter, the share prices resume their normal relationship with the market.

The ARA and AGM events show different responses. The abnormal return for ARA blips up from 1.3% at t-1 to 1.6% on the publication day and is 1.5% at t+1. The AGM rises from 1.3% at t-1 to 1.9% at both t and t+1 and falls to 1.4% at t+2. In both cases the negligible apparent increases are immediately followed by stability. Most of the information released by the two events appear to have been anticipated by the market before the events took place.

4.1 The effect of “good” and “bad” news

Whilst the absolute average abnormal returns indicate the value of new information in aggregate, these represent a composite measure reflecting both “good” and “bad” news. “Bad” news would be followed by share prices moving downward giving a lower return than expected, hence a negative residual, whilst “good” news would have the reverse effect. To assess how investors react to “good” and “bad” news the event day abnormal returns were divided into two groups comprising companies with negative abnormal returns and those with positive abnormal returns. Runs were then made for both the negative and positive groups similar to the runs made for the absolute average abnormal returns. The results are shown in Tables 10 to 13. It should

be noted that splitting residuals on any day into +ve and -ve groups will result in figures of a related shape to those given. More work is required to investigate the statistical significance of these results and their potential importance.

Table (10)
Preliminary Announcement
Cross – sectional average abnormal returns in the Twenty-three days
surrounding the announcement.

Day	Positive (N=207)		Negative(N=130)	
	Ave. Abn. Return(%)	St .Dev	Ave. Abn. Return(%)	St.Dev
-19	0.136	2.025	0.203	1.878
-18	-0.138	2.055	0.144	1.556
-17	0.173	1.882	0.162	1.500
-16	-0.011	1.731	-0.047	1.096
-15	0.086	1.958	-0.210	1.805
-14	0.055	1.565	0.047	1.909
-13	0.153	1.811	0.054	2.031
-12	-0.135	2.035	-0.098	1.567
-11	-0.021	1.886	0.240	1.587
-10	0.067	1.802	0.346	2.189
-9	-0.188	1.616	0.047	2.126
-8	0.047	1.770	0.334	2.178
-7	0.159	1.805	-0.199	1.728
-6	0.041	1.847	-0.289	1.591
-5	-0.152	1.464	-0.030	2.086
-4	-0.085	1.924	-0.142	1.744
-3	-0.023	2.613	0.220	2.616
-2	0.076	2.472	0.161	1.902
-1	-0.342	2.635	0.030	1.949
0	4.067	3.894	-4.095	5.558
1	-0.108	2.774	0.475	4.606
2	0.266	2.268	-0.146	2.407
3	-0.214	2.058	0.166	2.218
4	-0.197	2.443	-0.529	2.704

Table (11)
Annual Report and Accounts
Cross – sectional average abnormal returns in the nine days
Surrounding the announcement.

Day	Positive (N=176)		Negative(N=161)	
	Ave. Abn. Return(%)	St .Dev	Ave. Abn. Return(%)	St .Dev
-4	-0.289	1.233	0.279	1.873
-3	0.071	2.204	-0.253	2.307
-2	-0.025	2.247	-0.121	2.124
-1	-0.032	1.953	0.435	1.952
0	1.607	1.843	-1.573	2.512
1	-0.149	2.298	0.055	2.292
2	0.302	2.333	-0.195	3.181
3	0.183	2.015	0.203	2.869
4	0.292	2.473	0.418	2.394
5	-0.081	2.022	0.197	2.056

Table (12)
Annual General Meeting
Cross – sectional average abnormal returns for the Fourteen days
Surrounding the announcement.

Day	Positive (N=169)		Negative(N=168)	
	Ave. Abn. Return(%)	St .Dev	Ave. Abn. Return(%)	St .Dev
-9	0.127	3.067	-0.121	1.987
-8	-0.344	2.019	0.224	1.995
-7	-0.169	3.569	0.111	1.649
-6	-0.220	2.451	-0.203	1.704
-5	0.382	3.493	0.098	1.715
-4	-0.168	2.373	0.257	2.222
-3	0.031	1.966	-0.274	1.811
-2	-0.388	2.184	-0.220	1.918
-1	-0.137	2.103	-0.040	2.030
0	1.490	1.892	-2.038	2.625
1	0.034	2.245	-0.149	3.647
2	0.010	2.836	-0.128	1.849
3	-0.127	1.884	-0.004	2.022
4	0.183	2.186	0.277	1.787
5	-0.061	1.762	-0.045	1.685

Table (13)
Interim Report
Cross – sectional average abnormal returns for the Fourteen days
Surrounding the announcement.

Day	Positive (N=169)		Negative(N=168)	
	Ave. Abn. Return(%)	St .Dev	Ave. Abn. Return(%)	St .Dev
-9	-0.078	2.372	-0.132	1.823
-8	0.191	2.295	0.001	2.052
-7	0.047	1.604	0.125	2.111
-6	-0.125	1.696	0.092	2.065
-5	-0.048	1.599	-0.065	1.887
-4	-0.231	1.594	-0.131	1.732
-3	-0.105	1.855	-0.039	2.193
-2	-0.039	2.367	0.109	2.455
-1	-0.001	1.896	0.062	2.398
0	3.288	3.614	-4.772	5.734
1	-0.149	4.144	-0.201	3.781
2	0.189	2.378	0.471	2.636
3	-0.026	2.449	0.007	2.622
4	-0.005	1.768	-0.057	2.009
5	-0.75	2.056	0.088	3.014

4.1 Test 2 : Test of information content using ratio of event day residual to mean of non-event day residuals

Again in this test the author is looking at the size of the event abnormal returns as a measure of information content not their direction. The information measure used in this test is that of Oppong (1980):

$$V_{jt} = \frac{U_{jt}}{U_j}$$

Where (u_{jt}) = the absolute value of the abnormal return for the event day

U_j = the mean of u for the 252 non – event days.

J_t

If the event has significant information content the ratio will be greater than 1.0. Values of V_{jt} were computed for each event for all companies. Table 14 reveals the number of items on the event days exceeded 1.0.

Table (14)
Number of times $V_{jt} > 1.0$ ($N = 37$)

Event	Model 2
PA	258
PA+ I	210
ARA	155
AR + I	133
AGM	162
AG+I	175
IR	238
IR+I	182

A Wilcoxon matched pairs signed ranks test showed that the computed PA , PA+I , AGM +I , IR and IR +I were significantly greater ($p < .05$ one – tail test) than (U_j) except for model I where in addition the ARA and AGM were just significant at the same level .

Table (14) shows that the PA and IR had a high information content for around 77 percent and 70 percent of the firms respectively with the following day in each case also producing a reaction. Investors appeared to obtain no new information from the ARA and AGM in approximately 50 percent of the companies. These results reinforce the conclusions of Test 1. Again we have evidence supporting the hypothesis of lack of utility of the ARA for investment purposes.

4.1 Test 3: Degree of association between information content of different events

The tests so far demonstrate the considerable new information conveyed by the PA and IR as far as the stock market is concerned. If investors are mainly concerned with actual and prospective earnings and dividend numbers for equity valuation purposes then once the preliminary statement is released any incremental information conveyed by the ARA and AGM may be deemed by investors to be relatively unimportant.

To test the incremental information content of the different events relative to each other a Spearman's rank correlation test was used to examine whether the V_{jt} 's for the PA, ARA, AGM and IR were related. Table (15) summarizes the results.

Table (15)
Association between information content of events
(Spearman s rank correlation coefficients) (N = 37 Companies)

Model	PA-ARA	PA-IR	ARA- AGM	ARA-IR	AGM -IR
2	0.011	0.121*	0.050	0.026	0.116*

• Note: These are significant at $p < 0.05$ one tail test using students t test .

Table (15) shows there is a statistically significant positive relationship between the PA and IR, and AGM and IR but between no other pairs of events, which results differ to Firth (1981). The reasons for these associations need to be explored further. These results may seem to confirm the high value investors place on earnings and dividend figures.

4.1 Test 4: The relationship between firm size and information content of different events.

Banz (1981), Reinganum (1981) and Dimson and Marsh (1986) have all reported an inverse relationship between the size of a company and the excess return earned by its stock. It is hypothesized that as there is less information available about small firms, investors require a premium to compensate them for the higher risk associated with less researched small firms. The corollary to this is that as large firms are more actively researched by stock broking analysts more information is available, and as the firm decreases in size so does the level of stockbroker attention and consequently the information about it available to market participants (see Zegal, 1984).

Company size for our purposes is measured by market capitalization as taken from the Global Inc. Risk Management Guide for March 2001 .The abnormal returns (U_{jt}) for each event were regressed on company ($1n$) size. The results shown in Table (16) are consistent with prior studies as for all three models all events had an inverse association with company size with only the AGM not statistically significant. The larger the firm the more information there is available on it so when its obligatory financial events occur there is less share price reaction to the information released . the evidence suggests that in the case of the AGM if virtually no new information is being conveyed then little relationship with firm size may be expected and for the ARA investors may regard the information it contains as of value only for equity investment purposes in small companies.

Table (16)
Comparison of firm size with event information content correlation
between U_{jt} and firm size (market capitalization)

Model	PA	PA+I	ARA	ARA+I	AGM	AGM+I	IR	IR+I
2	-0.257	-0.244	-0.158	-0.138	-0.065	-0.095	-0.217	-0.225

• Note: all events are significant at $P < 0.05$, one tail test using students t save AGM .

Firth (1981) suggests that a small company is one with a market capitalization under \$15m. In this sample of 36 companies 4 (10.8%) fall into this classification. Table (17) provides the breakdown for the 36 firms with PA residuals (absolute returns) one standard deviation or more from the mean of the PA sample residuals and 29 firms whose ARA residuals were similarly positioned from the ARA sample mean .

Table (17)
Companies with PA and ARA residuals more than one standard deviation from the sample PA and ARA mean

PA No of cos.	ARA No of cos	STANDARD DEVIATIONS FROM pa AND and ARA means (absolute residuals)
2	2	> 5
2	-	4 - 5
5	1	3 - 4
5	5	2 - 3
<u>22</u>	<u>21</u>	1 - 2
36	29	

The 36 PA and 29 ARA companies each contained 8 small firms of which 2 were the same companies. Thus 22% of the PA companies and 27.6% of the ARA companies are small according to our definition. Their figures respectively represent 2 and 3 times the proportion of small companies in the whole sample the frequency of small companies with large abnormal returns provides further evidence of the inverse relationship between the size of the company and the excess earned by its stock.

5. Weekly Data

Weekly studies have worked with weekly data only and this may have affected the results reported. To test for nay-potential bias introduced by using weekly data certain of the above tests were re-run using weekly data. This was derived by adding together the logarithmic residuals for five consecutive trading days and, where indicated, taking the absolute value. Because of data restrictions the number of companies dropped from 37 to 25.

5.1 Test 1: Information content of event disclosures – analysis of mean cross-sectional return data

Table (18)
Ranking of absolute average weekly abnormal returns (N = 25)

Rank	MODEL2 week	WAR
1	PA	0.0554
2	IR	0.0549
3	AGM	0.0383
4	36	0.0367
5	ARA	0.0357
6	25	0.0341

Table (18) provides the cross-sectional ranking of absolute average weekly abnormal returns. The ranking of the event weeks are identical with Table (4) for daily data. As in other studies the weekly residuals are greater than the daily residuals.

5.1 Test 2: Degree of association between information content of different events

Table (19)
Association between information content of events using absolute values
of weekly residuals (Pearson's correlation coefficients
with students t values in parenthesis) (N = 25)

Model	PA-ARA	PA-AGM	PA- IR	ARA-AGM	ARA-IR	AGM-IR
2	0.195 (3.565)	0.055 (0.966)	0.116 (2.107)	0.116 (2.092)	0.215 (3.962)	0.152 (2.763)

Unlike Table (15), Table (19) shows small, statistically significant positive co-relationships between all events except the PA and AGM. These results differ from those of daily data revealed in para. 3.5 and from the results of Firth (1981). Firth found no evidence of a significant co-relationship between the AGM week and the PA, ARA and IR weeks. If the regression is conducted using the actual, signed weekly residuals the only significant association is between events PA and ARA, and AGM and IR as shown in Table (20). There is some Logic in these co-relationships as ARA closely follows the PA and the IR follows the AGM though with a longer interval. The two events, which relatively quickly follow one after the other, the ARA and the AGM, show no significant association. Whilst all three tests in this study are consistent in revealing, perhaps not unexpectedly, no relationship between the PA and AGM, the two tests using weekly data show a significant association between the PA and ARA not evidenced when using the daily information statistic (V jt).

Table (20)
Association between information content of events using actual values
of weekly residuals
(Pearson's correlation coefficients with students t values in parenthesis) (N = 25)

Model	PA-ARA	PA-AGM	PA- IR	ARA-AGM	ARA-IR	AGM-IR
2	-0.139 (2.517)	0.005 (0.087)	0.016 (0.292)	-0.037 (0.662)	-0.015 (0.275)	0.130 (2.347)

6. Concluding Summary

This paper tests explicitly the information content and value of firms accounting disclosures to financial analysts and investors generally in Kuwait. Four major releases of information are examined for their impact on the firm valuation using the generic capital asset pricing model (CAPM) paradigm and event study construct the preliminary announcement (PA), annual report and accounts (ARA), annual general meeting (AGM) and the interim report (IR). Daily share price data for a sample of listed firms (37) are used and a number of methodological issues raised.

Results show that both the preliminary announcements and interim statements convey substantial amounts of new information with cross-sectional average absolute excess returns of 4% on the event day (and over 2 % on the following day) whereas the AGM and annual accounts appear to convey relatively little information. Using abnormal information metric, three quarters of the firms preliminary statements and interim results releases were found to contain new information whereas for the other two messages the proportion was below half. Interestingly enough there is a statistically significant co-relationship between the information content of the PA and IR but not for any other pair of events. The two earlier related studies both used weekly data only. To explore the sensitivity of results to the duration of the event period and allow more direct comparisons, some of the analyses were also conducted using weekly data. Compared with daily data, the results prove to be little different.

Contrary to Foster et al (1986), Firth (1981) using weekly data and a similar time period to this study, places the annual report on the same level as the interim results for information content. Chambers and Penman (1984) found that, on average, the interim statement has a greater price effect than the preliminary announcement. Results support the conclusion of Foster et al but are at direct variance to those of Firth and differ somewhat from those of Chambers and Penman .

Using OLS the average beta was 81 whereas when estimating the risk measure using an estimating method designed to avoid thin trading bias, the average beta rose to 1.03.

This study, apart from its methodological contribution, inter alia, appears, on a face value basis, to confirm the lack of apparent value of the annual report and accounts to market participants as an information source compared with what are in effect the straight dividends and earnings announcements conveyed in the preliminary and interim statements.

In considering the incremental information content of the annual report one should note these evidence some still consistent with certain firms experiencing large abnormal returns associated with the information release but not others.

This study may perhaps be viewed as essentially focusing implicitly on outliers rather than mean returns or information anticipated by the market in aggregate. The latter is more to do with investor rational expectations than the content of the annual report and accounts incremental to that provided in the preliminary statement focusing on those firms with high absolute residuals i.e: the outliers, for this purpose.

The methodology to be adopted will be to match the 29 companies (see Table 17). Paining will be by industry, market capitalization, beta and risk management rating.

So far we have looked at the market risk only but are outlier companies high total risk firms ? Perhaps , therefore, a better approach would be to measure risk in terms of the variability of a company's abnormal returns rather than by beta. Are abnormal returns driven by high variability rather than small size and what is the relationship between size and variability (see Banz,1981 and Reinganum, 1981).

Subsequent research will focus explicitly on theses issues to explore whether the apparent lack of incremental information content we experience is, in fact, a true reflection of the value of the annual report and accounts to all market participants.

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أهمية الإفصاح المحاسبي للمستثمرين بدولة الكويت

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المستخلص: للإفصاح المحاسبي أهمية متعاظمة للمستثمرين لما له من تأثير مباشر على قراراتهم الاستثمارية. ويهدف هذا البحث إلى قياس أهمية عناصر الإفصاح المحاسبي للمستثمرين على وجه الخصوص ولمستخدمي البيانات المالية عامة بدولة الكويت. وقد تم التركيز على أربع نواح من الإفصاح المحاسبي. فبالإضافة إلى التقرير المالي السنوي، واجتماع الجمعية العامة، والتقارير الدورية للمنشآت المالية، تم اختيار الإعلانات الأولية الصادرة عن تلك المنشآت والتي تسبق نشر بياناتها المالية المدققة.

ومن خلال تتبع حركة التداول وأسعار الأسهم، علاوة على عوائد عينة من المنشآت المحلية المدرجة في سوق الأوراق المالية بالكويت، تم اختبار تلك العناصر الأربعة وبيان تأثيرها على قرارات المستثمرين. كما تم استخدام اختبارات إحصائية تقليدية كاختبار OLS واختبار Scholes & Williams ونماذج تحليلية متقدمة مثل CAPM واختبارات أخرى متعددة تتعلق بعنصر المخاطرة Beta وذلك لضمان صدق النتائج وحسن تمثيلها.

وقد أظهرت النتائج أن التقارير السنوية لا تعتبر ذات فائدة ملموسة للمستثمرين بالرغم من اهتمامهم بها أحيانا واستخدامهم لبعض محتوياتها في تفعيل تداولاتهم. كما أظهرت النتائج شيئا من الارتباط بين حجم المنشآت المالية ونوع الإفصاح المحاسبي إضافة إلى طبيعة المعلومات المالية المنشورة. أما ما يتعلق بالتقارير الفترية، فقد أوضحت عينة الدراسة أهميتها وخاصة لما تتضمنه من تنبؤات، الأمر الذي يستلزم الاهتمام بتلك التقارير والحرص على نمطيتها مع تضمينها بعض المؤشرات المالية ذات العلاقة بأداء المنشآت المالية المدرجة بسوق الأوراق المالية بدولة الكويت.